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Earthquake's Impact on China's Swine Production

2008

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Report Highlights:

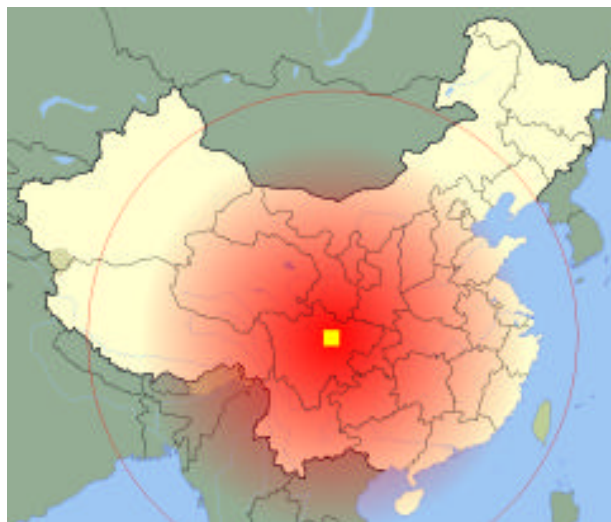
On May 12, 2008, a magnitude 8.0 earthquake shook China's Sichuan Province. Although the center of the earthquake is not a main swine and pork production area, some major production areas have been impacted. China's pork imports are expected to remain strong and prices high throughout 2008 due to this disaster, strong domestic consumer demand, short domestic supplies, and the desire to guarantee adequate strategic reserve levels. Pork production is expected to decline two to four percent in the region as a result of the earthquake, putting slight upward pressure on nationwide pork prices, but rebound in six to eight months. The earthquake will likely be a contributing factor to agricultural price increases of 10-20 percent over the summer.

Includes PSD Changes: No
Includes Trade Matrix: No
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Summary

On May 12, 2008, China's Sichuan Province experienced a massive earthquake measuring 8.0 on the Richter scale. Although the epicenter of the earthquake is not a main swine and pork production area, some large production areas near the earthquake center were impacted. The immediate impact includes destruction of 12.5 million head of livestock, mostly poultry. Local industry reports that four to five million pigs were impacted, with most being killed by the earthquake, but some also are expected to starve or be slaughtered due to lack of feed supplies. The long-term impact is more difficult to assess and depends on the speed of restoration of water, energy, and transportation services. Post estimates that pork production will decline two to four percent in the region as a result of the earthquake, but is expected to rebound in six to eight months. Initially, local pork prices may decline slightly as swine are liquidated because of the lack feed or water, but prices will rebound and put a slight upward pressure on pork prices nationwide. Post forecasts the earthquake will be a contributing factor to agricultural price increases of 10-20 percent over the summer, but that pork price increases will be limited by government price controls. China's pork imports are expected to remain strong throughout 2008, especially from the United States, the largest supplier of pork to China.

Strong Earthquake in China



The May 12 earthquake's epicenter was in Wenchuan County, Sichuan Province. China's Seismological Bureau has upgraded the earthquake from 7.8 to 8.0 magnitude. The U.S. Geological Survey reports the epicenter was located at 31.0 degrees north latitude and 103.4 degrees east longitude. As of May 21, the official death toll is 40,075, with as many as 247,645 people injured, and 32,361 missing, according to Xinhua News. On May 17, the central government said the death toll could reach over 50,000. The earthquake is being called China's worst disaster since a 1976 earthquake killed more than 250,000 people in Tangshan City, Hebei Province.

Sichuan: China's Largest Pork Producer

Sichuan is China's largest swine and pork producing province, and accounts for 12 percent of China's total swine inventory, 11 percent of slaughter, and 10 percent of total pork production. Sichuan Provincial Agriculture and Forestry Department data shows that Sichuan slaughtered 71.1 million head of swine in 2005 and 74.7 million head in 2006. Pork production in Sichuan was 5.1 MMT in 2005 and 5.4 MMT in both 2006 and 2007, respectively. GDP in the disaster area is reported to account for two percent of China's total GDP and the damage from the earthquake is expected to slow China's total GDP growth slightly in 2008.

Earthquake's Impact on Swine and Pork Production in China

Like the death toll, the immediate impact of the earthquake rises with each reassessment. On May 19, Vice-Minister of Agriculture Wei Chao'an said the impact on agriculture includes the destruction of 12.5 million head of livestock, mostly poultry. According to China's swine industry, the earthquake has impacted four to five million pigs in the disaster area, with most being killed by the earthquake, but some also expected to starve or be slaughtered due to lack of feed supplies.

Post estimates that pork production will decline two to four percent in the region as a result of the earthquake as the overall earthquake recovery draws resources away from agriculture, but production is expected to rebound in six to eight months. Most of Sichuan's industrial swine cultivation facilities are located in the southern part of the province. The eight main swine and pork production areas (Chengdu, Mianyang, Nanchong, Ziyang, Dazhou, Yibin, Liangshan, and Luzhou) account for 51 percent of the total swine and pork production in the province.

Local industry reports that swine and pork production in Chengdu and Mianyang have been impacted significantly. Feed and food processing plants in these and other affected areas have halted production due to the disruption of water and electricity supplies. Chengdu and Mianyang are both in the immediate earthquake zone. Mianyang is a swine production base, while Chengdu is important for both swine and feed production. Disruption in the transportation infrastructure has resulted in shortages of feed and other inputs. As transportation facilities, airport, trucks, trains, and warehouses are dedicated to the relief effort, the immediate impact of the earthquake may lead to more protracted problems.

China's pork production in 2007 is estimated to have decreased nine percent from 2006. Production has suffered from high prices, inflation, natural disasters, and animal diseases. Inflation has pushed grain, labor, and energy costs to new highs, making it more expensive to produce pork. Insufficient disease control in the aftermath of blue ear disease (porcine reproductive and respiratory syndrome - PRRS), foot and mouth disease (FMD), and swine fever in the last few years, combined with severe winter snow storms in early 2008, have all negatively impacted China's swine and pork production. As large numbers of backyard or small-sized operations withdraw from production and commercial sized operations struggle to fill the supply gap, China's 2008 pork supply is expected to remain very tight as production recovers slowly. Currently, 50 percent of swine are raised in backyard or small-sized farms versus over 70 percent in 2005.

The long-term impact is more difficult to assess in part because it depends on the recovery of key components of the agricultural production infrastructure which is too early to assess. Critical long-term infrastructure needs, include transportation, water, power, irrigation, fuel, disease control, and cold storage. ATO/Chengdu current assessment is that the transportation infrastructure is damaged but intact. Significant transportation resources, including trucks, trains, planes, and warehouses, are being dedicated to the relief and recovery effort. Water resources remain generally available but there are conflicting reports of damage to dams in the affected region that protect against flooding and provide irrigation and hydroelectric power. Electrical power in Sichuan is mostly provided through hydroelectric stations, but the region is also a net coal exporter. Mining coal in the effected region has been suspended. Initial reports are that destruction of industrial facilities threaten to contaminate water supplies with chemical pollutants.

Price Increases and the Earthquake

Initially, local pork prices are expected to decline slightly as swine are liquidated because of lack feed or water. During the relief period, the government is expected to cap pork prices. After the initial earthquake recovery through June, local prices are expected to rebound and put slight upward pressure on pork prices nationwide. While not the dominant factor, the earthquake is expected to be a contributing factor to price increases of 10-20 percent over the summer. ATO/Chengdu currently does not forecast long-term water, electrical, or other transportation or input problems.

China's consumer price index (CPI) increased by eight percent in the first quarter in 2008. Wholesale prices for staple goods prior to the earthquake were up 32-68 percent over

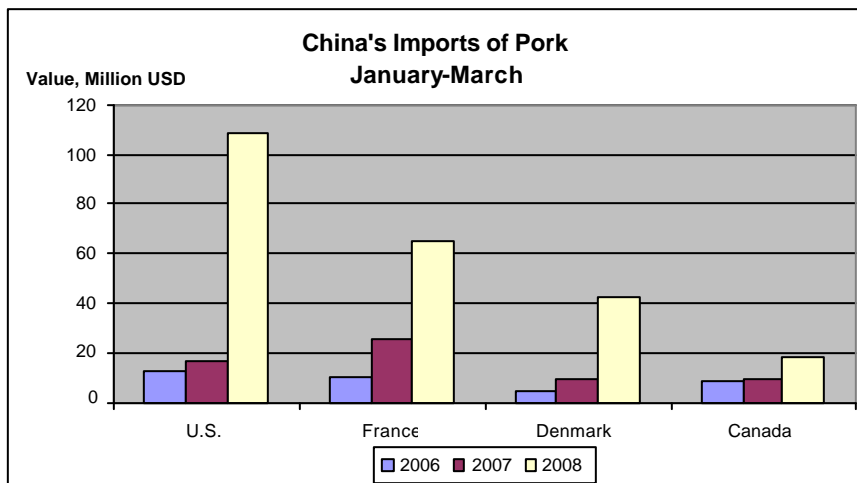
January 2008, and pork prices in April 2008 increased by 68 percent compared with the previous year. Representing nearly 65 percent of per capita meat consumption, the daily increases in pork prices have pressed China's poor and middle-class families, who spend a larger portion of their income on food.

Impact on Pork Trade

Imports

China's pork imports in 2008 exploded as a result of strong demand, increased public stock holding, and short domestic supplies. Imports of pork from January to March 2008 increased to U.S. \$121.6 million, up from \$7.5 million in 2007, while imports of variety pork meat have increased to U.S. \$142.6 million, up from \$74.2 million during the same period in 2007. U.S. exports to China account for 68 and 24 percent of China's total pork and variety meat imports, respectively. This does not even include U.S. exports to Hong Kong re-exported to China. Post forecasts the United States will remain the largest supplier to China for the remainder of 2008.

Source: China Statistics



Exports

According to the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), Sichuan exported a total of 8,200 MT of pork from January to April 2008, mostly to Hong Kong. Local trade sources confirm that some processing plants in Sichuan have halted exports to Hong Kong as a result of the earthquake.

On May 14, AQSIQ coordinated with Hebei, Guangdong, Hunan, Henan, and Shandong provinces to supplement export supplies to Hong Kong by an additional 400-500 metric tons per month, to make up for lost exports from Sichuan. This will insure supplies are tight throughout China, putting upward pressure on pork prices nationwide. As a result, sustained levels of imports in 2008 are expected, especially from the United States, the largest supplier of pork to China. The United States is also the largest supplier of pork to China's national strategic reserves.